

RatingsDirect®

Summary:

Douglas County, Nevada; General Obligation

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Douglas County, Nevada; General Obligation

Credit Profile

Douglas Cnty GO (XLCA)

Unenhanced Rating

AA(SPUR)/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on Douglas County, Nev.'s previously issued limited-tax general obligation (GO) bonds to 'AA' from 'A+', based on our local GO criteria released Sept. 12, 2013. The outlook is stable.

A limited pledge of ad valorem taxes secures the bonds, subject to statutory limits on an overlapping tax rate of \$3.64/\$100 of assessed value (AV). The total overlapping tax rate for fiscal year 2014 is at the limit.

The rating further reflects our assessment of the following factors for the county.

- Douglas County, with a stable population of approximately 48,000, covers a predominantly rural 750-square-mile area bordering Lake Tahoe and the eastern slope of the Sierra Nevada mountains south of Carson City, the state capital. Despite very strong economic indicators, including projected per-capita effective buying income of 132% and per-capita market value of \$145,000, we consider Douglas County's economy weak, mostly due to its employment base concentration and persistently high unemployment rate. Its unemployment has improved, but remains high, averaging 12% in 2012 and 10.3% through November 2013, after peaking at 14.6% in 2010. The regional economy depends on tourism along southeastern Lake Tahoe, and local employment centers on services and gaming. The property tax base is diverse, in our opinion, with significant property wealth in land near the lake. After peaking at over \$3.5 billion in fiscal 2009, AV has declined significantly to an estimated \$2.4 billion in fiscal 2014.
- In our opinion, the county's budgetary flexibility remains very strong with available, assigned and unassigned general fund reserves above 15% of expenditures for the past several years and no plans to significantly spend them down. Audited available general fund reserves were \$6.8 million or 18.3% of expenditures for fiscal 2013.
- The county's budgetary performance has been adequate overall, in our view, with a 3.0% general fund surplus in fiscal 2013, but a slight deficit of 1.9% across all governmental funds. Officials balanced the fiscal 2014 budget and expect available reserves to remain consistent with levels maintained in fiscal 2013. Although revenue generated from the county's primary revenue sources--property and consolidated sales taxes--have stagnated in recent years, we believe officials have successfully implemented corresponding expenditure adjustments, permitting the county to add to reserves in fiscal years 2012 and 2013 after consecutive deficits in fiscal years 2009-2011.
- Supporting the county's finances is liquidity we consider very strong, with adjusted total government available cash at 29% of total governmental fund expenditures well over 100% of annual debt service expenditures. We believe the city has strong access to external liquidity since it has regularly issued GO and other tax- and revenue-supported bonds over the past 15 years.
- We view the county's management conditions as very strong with strong financial practices that are well embedded, and likely sustainable.

- In our opinion, the county's debt and contingent liabilities profile is very strong. Total governmental fund debt service was 2.8% of total governmental fund expenditures in fiscal 2013 and net direct debt, including self-supporting water and sewer debt was 30% of total governmental fund revenue and slated to rise. Including an estimated \$15 million of additional GO debt that the county expects to issue over the next 12 months for capital improvements, we anticipate that net direct debt will increase to roughly 47% of total governmental fund revenue.
- Douglas County participates in the Nevada Public Employees' Retirement System, and it has historically contributed 100% of the annual required contribution (ARC); \$8.8 million of contributions in fiscal 2013 translated to 9.7% of governmental expenditures. The county also provides other postemployment benefits (OPEB) for eligible retired employees through either the state's public employee benefit plan or Douglas County Health Benefits Plan. The combined ARC pension costs and other postemployment benefit pay-as you-go costs for fiscal 2013 were 10.4% of expenditures, and we do not anticipate that these costs will increase substantially in the near term.
- We consider the institutional framework score for Nevada counties as strong. (See the Institutional Framework score for Nevada.)

Outlook

The stable outlook reflects Standard & Poor's opinion that county officials will likely continue to manage general fund operations prudently, making the budget adjustments necessary to maintain stable financial operations and very strong available reserves. Therefore, we do not expect to change the rating over the two-year outlook horizon.

Although many factors point to stabilizing economic and financial indicators, we could consider a lower rating if the county's financial performance deteriorated, reducing its financial flexibility below levels we consider very strong. Due to what we consider the county's currently weak economy, coupled with its dependence on more cyclical economic and employment sectors, we do not expect to raise the rating over the outlook's two-year horizon.

RELATED CRITERIA AND RESEARCH

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Nevada Local Governments

Ratings Detail (As Of January 10, 2014)

Douglas Cnty GO

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
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Douglas Cnty GO bnds

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
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Douglas Cnty GO (Medium-Term Pkg Garage Bnds)

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
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Many issues are enhanced by bond insurance.

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